International Journal of Mechanical Engineering and Technology (IJMET)
Volume 10, Issue 01, January 2019, pp. 467–474, Article ID: IJMET_10_01_048
Available online at http://www.iaeme.com/ijmet/issues.asp?JType=IJMET&VType=10&IType=01
ISSN Print: 0976-6340 and ISSN Online: 0976-6359

BEHAVIOUR OF PENSION FUND AND POSSIBLE DEVIATION FROM THE EXPECTED BEHAVIOUR – A STUDY ON RETIRED EMPLOYEES OF MANUFACTURING SECTOR, MYSURU

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ABSTRACT

The Indian subcontinent is known for its population and at present is one of the countries having maximum number of youngsters. This also indicates an increase in old age population. Meeting the needs of the old age has also been a matter of challenge to the government. Both public sector and private sector, financial and non-financial organization concentrate on pension planning. In recent days the importance given to pension planning is increasing. Though there are schemes that promises old age security, the effectiveness of such schemes is not evident. This paper focuses on study of effectiveness of pension schemes opted by selected retired employees of private manufacturing sector. The main objectives of the study is to understand the behavior of pension fund and possible deviation from the expected behavior. The sample where selected from retired employees of private manufacturing sectors in Mysore district. The data was collected through scheduled questionnaire and telephone interview.

Keywords: private manufacturing sector, pre-retirement planning, pension funds, behavior of pension fund;

Cite this Article: Ms.Bhagyalakshmi K and Ms.Sunayana N, Behavior of Pension Fund and Possible Deviation from the Expected Behavior – A Study on Retired Employees of Manufacturing Sector, Mysuru, International Journal of Mechanical Engineering and Technology, 10(01), 2019, pp.467–474
http://www.iaeme.com/IJMET/issues.asp?JType=IJMET&VType=10&Type=01

1. INTRODUCTION

According to PFRDA – Pension Fund Regulatory and Development Authority, Retirement is an important phase in the life of an individual where the individual stops being an active part of working population due to advanced age (NCFE). Retirement planning is basically financial planning during the working period of an individual with the purpose of achieving financial independence and dignified life after retirement. Retirement planning involves planning at three

basic levels (i) estimating the amount annual income required for financial security after retirement (ii) estimating the amount corpus fund to be accumulated for retirement in order to generate required pension (iii)finding the right kind of investment plan during working period which generates sufficient corpus fund which does not become an additional burden. Retirement planning comprises recognizing sources of income, assessing expenses, investments plan, and handling assets. Future cash flows are assessed to decide, if the retirement revenue goal will be attained (Thakur, Dr Jain, et al..2017). The new generation of employed individuals today feel that retirement plans are of burden for them as it involves long-term planning (M. Krishnamurthy et al.., 2012)

According to Cambridge dictionary, Pension is a sum of money paid frequently by the government or a private firm to a person who does not work any additional, because they are too old or have turn out to be ill**.** Pension is a benefit which has been received by an individual for the long service after retirement. Pension can be availed periodically or on a lump sum basic. Pension fund is utilised for better standard of living for the individual as well as their family members.

The concept of pension was introduced in India by British government before independence during 1857 which was supported by Indian Pension Act 1871.

The Royal Commission on Civil Establishments, in1881, the initial pension benefits is awarded to the government workers. The Government of India Acts of 1919 & 1935 completed additional requirements. These systems were later combined and extended to deliver retirement welfares to the entire occupied population of the public sector. Key retirement systems in India contain provident fund, gratuity, and pension plans (Ashraf Imam, 2011). The primary two plans bring huge retirement benefit whereas the previous one makes payment in the form of a regular annuity. General features characterize these systems i.e. its compulsory, occupation founded, salaries related, and have fixed insurance protection against disability besides death. In 1995 the Central Government announced an additional complete declining years poverty upgrading program known as the" National Old Age Pension" (NOAP), below the guidance of the ''National Social Assistance Program'' (NSAP). The system purposes are provided regular pension to thirty percent of the poorest aged (evolution of pension) In 2004 a contributory pension system was announced by the government of India which was named as National Pension System. The NPS was applicable to entire residents of the nation. Together with self-employed professionals and others in the unorganized sector.

Pension funds are common asset pool intended for sustainable growth in long term, and pensions for employees will start their retirement once they extend the conclusion of their employment years. Pension funds are normally run by some kind of economic businesses. Pension funds are measured by a comparatively huge capital and represent the large institutional depositors in many nations. There are two sorts of retirement systems Defined Benefit schemes and Defined Contribution scheme. DB are those schemes are investment will be wearing and contribution will be fixed. DC schemes contribution will be wearing and investment will be fixed (Charles Zhu 2017).

1.1. PENSION FUND MANAGEMENT

Pension fund is a deposit recognized by the company to smooth and establish the savings of workers' retirement funds donated by the owner and workers. The pension fund is a mutual asset pool indicate to create safe development over the period of time, and deliver pensions for staffs when they reach the end of their occupied years and commence the retirement (Ashaf Imam, 2011). The Pension Fund is accomplished by the Pension Fund Administrators and they are accountable for Investment choices in certain authorities, it can be by assets Administration,

insurance corporations, and certain management decisions, The Board of Trustees is responsible for some corporate organizations. (Ashraf Imam 2011).

The main objectives of pension investment are to guarantee acceptable, reasonable and maintainable benefits Investment, security, security of assets, and sufficient liquidness to pay for complete pensions returns of funders when establishing fixed risk managements for pension assets Maximum limit ranges for the category of individual, class or class of mix assets.

Types of pension

- Additional voluntary contributions(AVC)

As an associate of an occupational pension system, expenses in the method of AVC can be complete above the usual equal of influence to increase additional pension benefits.

- Final salary pension scheme

A final salary (or clear benefit) system is a kind of occupational pension wherever the sum of retirement revenue is founded on your final salary. These are becoming fewer mutual.

- Self-Invested personal pension (SIPP)

A self-invested personal pension is a kind of individual pension. A SIPP is a pension strategy that springs you the liberty and control to completely accomplish your own savings results by purchasing stock and bonds and variety of other kinds of properties.

- Stakeholder pension

A stakeholder pension works in a parallel method to additional individual pension between retiree, the member and the organizations.

This paper focuses on understanding effectiveness of pension fund management of pension schemes opted by employees of Manufacturing sector. Along with the govt pension schemes many other financial institutions also offer old age pension schemes. The govt regulated pension schemes generally consider the inflation rate and will be able to meet the needs of the pensioners. But these govt schemes earlier to NPS, were not available for employees in the private manufacturing sector. They are left with one option of investing in private pension scheme or pension offered by NBFC (Non-Banking Financial Company).

This paper tries to understand how effective are these pension schemes in meeting the expectations of employees of private manufacturing sector. This helps not only employees to plan their investment but also companies offering pension schemes to pensioners.

2. LITERATURE REVIEWS

The study on retirement planning derives its concepts from various perspectives emerging from both theoretical and practical knowledge. The economic models of savings and investment provides a logical understanding of why and how people prefer or not prefer to invest in retirement. These economic models view retirement investment from public policy modules rather than personal planning perspectives *(H W Elder & P M Rudolf, 1999).* Recently need for understanding retirement planning from the perspectives of individual financial planning is increasing. the rationale behind investments in retirement by individuals also helps determine the level of satisfaction derived from pension received (*Sudip Banerjee, Nirmal Kuntal, 2018)*

The determination and discipline of the investors decides the level of investment in pension plan. The persistent investment will ultimately lead achievement of their retirement plan. There are various other factors that contribute towards ion investment decision of an investor in retirement planning *(*Shailesh Singh Thakur, Dr SC Jain et al.., 2017). The people may share their opinions and experience of their retirement investments along with other savings plan among the peers (Madrian and Shea, 2000). This may influence decision of not just investment

in retirement but also the exact investment and institution of investment amongst the investors on retirement planning (E. Duflo, E. Saez, 2002). The age in which individual plans to invest in retirement also plays a significant role in determining the amount of money receivable after retirement as pension. The early planning for retirement protects the old age security of investors (M. Krishnamurthy et al.., 2012)

The retirement plan should satisfy the objectives of investment of an individual. This makes it obligatory to understand the factors that are responsible for satisfaction amongst the beneficiaries. Retirement satisfaction is related to both financial and non-financial variables. Planning and thinking about retirement also provides fulfilment level for those who retirement results were not complete voluntarily (either finished health difficulties or an employer command). Other factors may be income, wealth, marital status and health. *(H W Elder & P M Rudolf, 1999).*

However, wealth accumulation is a significant factor in any financial proposal, it is not adequate to ensure the financial security in retirement. If an individual purely concentrates on wealth accumulation such as building a house, investing in stocks, golds etc., he/she fails to understand exactly how these assets will be converted into regular income after retirement. this becomes difficult as one fails to understand how long he may live (Jeffrey R. Brown, 2007). Certain studies concentrate on understanding that retirement planning along with that higher revenue, and having well psychological and physical strength accounted for healthier retirement change. *(Tarryn Donaldson et al., 2010)*

To satisfy the beneficiaries the pension funds needs to be managed in a proper manner. An appropriate policy balancing the risk return trade-off is needed ensure satisfying pension benefits (*Ashraf imam 2011).* To reduce the additional fiscal burden on the nation, many countries in the world are shifting their focus from Contributory pension schemes from social security. India is also adopted CPs by starting the schemes such as NPS (Swaroopjith. S et al.. 2018). To meet varying old age security needs of the multi-cultural people of country with diverse income groups and lifestyles, there is a need for integrated model of retirement. This model have to consider along with other financial factors, psychological factors related to retirement adjustment (Donaldson et al.., 2009)

3. OBJECTIVES OF THE STUDY

- To understand the behavior of pension fund with respect to expected result by retired employees of private manufacturing sector.
- To assess deviation from expected result of pension fund opted by selected retired employees of private manufacturing sector.

4. METHODOLOGY

The structured questionnaire was distributed to a sample size of 52 retired employees from private manufacturing sector in Mysore. The descriptive statistical tools average percentage and percentile are used to analyze and arrive at the results. Telephone interview were also used as a medium to collect the data. Telephone interview which provided an option of collecting detailed information from the respondent.

5. FINDINGS OF THE STUDY

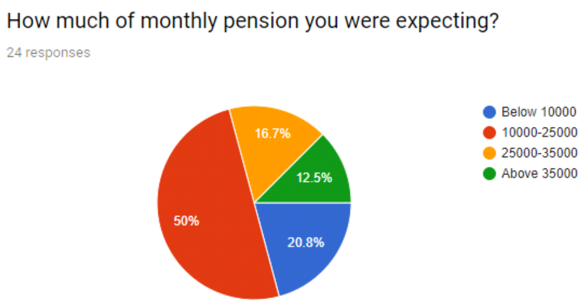
This study reveals that, out of 24 samples, majority of the respondents that is 87.5% are receiving monthly pension and rest of the 12.5% are not receiving monthly pension. Men have invested in retirement planning than women as women have contributed for the routine expenditures and short term investments.

The age acts as an important criteria for deciding investments in retirement. In the age range below 35 years' people do not have an inclination towards retirement planning and savings schemes will concentrate on acquiring comforts and luxuries such as investment in house, car, children's education etc. The level of income not only affects investment in retirement scheme but also influences amount of money invested in retirement scheme. People with lesser income invest very little amount on retirement planning thereby foregoing a dignified life in their old age.

The people employed in govt jobs there are mandatory pensions. Depending on their duration of service and positions they occupied, pension will be ascertained. Then government employees, employed before the year 2008 will get mandatory pension without their investment in it. These kinds of pensions generally match with cost of living and periodical revision in the dearness allowance is also there. For others who are not employed in govt sector investment in pension scheme is not mandatory and therefor planning for retirement becomes important to have a secured old age. This study basically concentrated on a group of people for who retirement planning was an option but not mandatory.

A retirement investment product the maximum preference by individuals is for equity funds followed by National pension scheme and LIC. Based on the demographic outline individuals in pre-retirement planning stage. LIC is looked upon as the most chosen investment device for investment for retirement planning followed by equity funds.

Pension funds: There are different categories of pension schemes are available in the market. Some of the pension funds are National pension system, Atal pension yojana, LIC Pension fund, Bank deposits, Agriculture Labor Pension, national old age pension etc. Even though there are variety of choices in pension fund people are mainly focusing on LIC Pension fund that gives 35.2% because the pension schemes developed by LIC appear to be quite positive. They not only meet the day today requirements but also supports additional expense. The basic purpose of investing in a pension scheme is to maintain the standard of living of the respondents and life insurance increases the retirees' retirement goals through the life insurance policy, respondents can authorize that they have consistent stream of revenue regularly. Adding currency in an annuity is similar as a pension proposal put in some currency frequently in a life insurance creation and like a stable income regularly even after the retirement. Followed by national pension system that gives 20.7% and the rest of the pensions like Agriculture labour pension-9.8%, national old age pension-9.8%, PF-4.9%, Government-4.9%, bank deposits-4.9% and others-9.8%.



- **Monthly pension:** From the study the result reveals that 50% people are expecting RS 10000-15000, and 20.8% people are expecting above RS 10000, and 16.7% people are expecting 25000-35000 remaining 12.5% people are expecting RS 35000.
- **Basic needs**: above average respondent that is 52.4% are not able to meet their basic needs from their monthly pension amount and the remaining percentage of the respondents can meet their basic needs. Because average respondents are receiving LIC pension, it helps the retirement goals through the life insurance plan, respondents

can confirm that they have well organized stream of income regularly. So they can meet their sufficient needs.

- **Expenditure** : To meet the level of standards in one's life, the present generations have to go through many expenses, it is found that the main objectives of one's wealth creation is protection against medical emergency, household expenses and travelling expenses. When it comes to 33.3% of respondents are using the pension earned for all the purpose another 14.3% of make use of the pension gain for their medical expenses and household purposes. And the followings are 9.5%-medical, travelling, other expenses 9.5%- medical, travelling, house hold, 9.5%-medical, travelling, 9.6% medical, 9.6%-travelling, 4.8%-house hold, other, 4.8%- medical, household, other expenses.

Performance of pension fund managers

The position of the corpus/ Asset under Management (AUM) with the pension fund managers is shown in in the following table:

PFM	AUM (Rs. in Mn)			
	31-mar-17	31-Mar-18	Increase in AUM	
			Amount	%
SBI Pension Fund Pvt. Ltd.	667232	892832	225601	33.81
LIC Pension Fund Ltd.	527093	701302	174209	33.05
UTI Retirement Solution Ltd.	520431	694832	174401	33.51
HDFC Pension Management Company Ltd.	11630	25603	13973	120.15
ICICI Prudential Pension Funds Management Company Ltd.	14415	23255	8840	61.33
Kotak Mahindra Pension Fund Ltd.	3120	5362	2241	71.82
Reliance Capital Pension Fund Ltd.	1690	2310	620	36.71
Birla Sunlife Pension Management Ltd.	-	294	294	-
Total	1,745,610	2,345,790	600,180	34.38

(Sources: Annual report 2017-2018, npstrust.org.in)

All the pension fund management sustained to observed moral growth in assets below management. Entirely the PFMs preserved the status in terms of size of AUM with SBI PF consuming the major corpus. HDFC Pension Management Company Limited recorded the maximum progress in AUM in percentage terms. (Source: Annual Report, PFRDA, FY 2017-18).

The table shows that organised pensions like SBI Pension fund, LIC Pension fund and UT Retirement key slightly differ in terms of money invested. Coming to the unorganized sector pensions like UTI Retirement solution ltd, HDFC Pension management company ltd, ICIC prudential pension funds Management Company limited, Kotak Mahindra pension fund ltd, and Reliance capital pension fund ltd and Birla sunlife pension management limited have more variations in the current year price than the previous year price. HDFC Pension have the biggest percentage change in the amount. it is almost double than previous year. But the LIC Pension,

SBI Pension and UTI Retirement solution doesn't have much variation in the current year. Because these pensions are under organized sector. In long run most of the pension fund behave similarly as short term variation will be nullified. Asset under management will also be appreciated in a similar manner as most of the long-term investment have same amount of interest. Pension fund aim at safety of investors even at the cost of interest rates. This will also be a disadvantage for investors aiming at very high returns after retirement.

6. SUGGESTIONS

- It is always prefer to invest for pension at the year of employment. Because longer the time period lesser will be the risk and more income.
- It is suggested that every manufacturing organization should initialize a pension scheme for their employees and thus helping to plan their retirement funds.
- It is suggested that to consider private manufacturing sector employees for the NPS scheme.
- Since there are many number of pension schemes are available in the market, it is advised to opt for the best return with least risk.

7. CONCLUSION

Retirement is a big reality of life. Retirement planning is a dynamic process and it is concerned to many other factors. One should always want to keep an eye on socio-economic and political factors along with the fulfillment of retirement planning. From this study it has been analyzed that demographic factor also affect the area of retirement planning. the most significant thing is that from the initial stage itself one should think about retirement planning. one of the major concern retirement planning is underdeveloped pension market in India. There is a very limited annuity option and also individual lack their faith.

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